

OVERVIEW AND SCRUTINY PANEL

Date	28 JANUARY 2013
Title	DRAFT MEDIUM TERM FINANCIAL STRATEGY AND GENERAL FUND BUDGET 2013/14

1. PURPOSE

To consider :

- the draft Medium Term Financial Strategy, General Fund Budget 2013/14 and Capital Programme 2013 – 2016 for consultation,
- the revised General Fund Budget and Capital Programme for 2012/13.

2. KEY ISSUES

- The draft Medium Term Financial Strategy and General Fund Budget 2013/14 report as presented to Cabinet is attached.
- The Provisional Local Government Finance Settlement for 2013/14 and 2014/15 was announced on 19 December 2012. We are currently awaiting the final announcement which is due at the end of January 2013.
- The Provisional Settlement has reduced the Council's Government Grant by £324,000 in 2013/14 (-3.9%) and by a further £1.042m in 2014/15 (-12.9%), a cumulative reduction of 16.2% over two years.
- Significant savings of £1.3m are required over the next two years.
- For the period 2013/14 – 2016/17 savings of around £2m will be required, subject to the outcome of the next Spending Review.
- The next Spending Review will have a significant impact on the Council's future resources from 2015/16 onwards. Consequently, forecasts for these years should be treated with caution.
- The introduction of the Business Rates Retention Scheme and the Local Council Tax Support Scheme imposes additional risks on the Council's forecast resources in 2013/14 and over the medium-term, as these are potentially subject to significant in-year volatility.
- The 'Growing Cambridgeshire' business rates pool has been dissolved for 2013/14 but will be re-considered for 2014/15.
- Revised estimates for 2012/13 are projecting overall a break-even position.
- Council tax increase for 2013/14 to be determined (2% provisional increase in the following years).
- An updated Capital Programme for 2012/13 and for the medium term 2013-16 is proposed.
- Given the scale of the challenges faced by the Council, the financial forecasts represent a considerable achievement and demonstrates the focus from Officers throughout the Council in delivering the required savings.
- The Council continues to focus on delivering quality services and to minimise the impact on front-line services.

3. RECOMMENDATIONS

It is recommended that Members consider and make any appropriate recommendations to Cabinet on:-

- (i) the draft budget proposals for 2013/14 outlined in this report;
- (ii) the revised estimates for 2012/13;
- (iii) the revised capital programme.

Wards Affected	All
Forward Plan Reference No. (if applicable)	
Portfolio Holder(s)	Cllr Alan Melton, Leader and Portfolio Holder, Policy and Resources Cllr John Clark, Portfolio Holder, Quality Organisation
Report Originator	Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Contact Officer(s)	Paul Medd, Chief Executive Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
Background Paper(s)	Provisional grant settlement – Department for Communities and Local Government (DCLG). Medium Term Financial Forecasts working papers. Government announcements since February 2012.

AGENDA ITEM NO.

CABINET

Date

14 JANUARY 2013

Title

DRAFT MEDIUM TERM FINANCIAL STRATEGY AND GENERAL FUND BUDGET 2013/14

1. PURPOSE

To consider and approve

- the draft Medium Term Financial Strategy, General Fund Budget 2013/14 and Capital Programme 2013 – 2016 for consultation,
- the revised General Fund Budget and Capital Programme for 2012/13.

2. KEY ISSUES

- The outcome of the Local Government Finance Settlement has reduced the Council's overall Government Grant funding by £324,000 in 2013/14 (-3.9%) and by a further £1.042m in 2014/15 (-12.9%), a cumulative reduction of 16.2% over two years. The Council's formula grant funding has reduced by 4.6% in 2013/14.
- Significant savings of around £1.3m are required over the next two years.
- For the period 2013/14 – 2016/17 savings of around £2m will be required, subject to the outcome of the next Spending Review.
- The next Spending Review will have a significant impact on the Council's future resources, from 2015/16 onwards. Consequently, forecasts for these years should be treated with caution.
- The introduction of the Business Rates Retention Scheme and the Local Council Tax Support Scheme imposes additional risks on the Council's forecast resources in 2013/14 and over the medium-term, as these are potentially subject to significant in-year volatility.
- At their meeting on 13 September 2012, Council agreed to be part of the 'Growing Cambridgeshire' business rates pool for 2013/14. Initial estimates following the finance settlement announcement shows a marginal financial benefit of the pooling arrangements which also allows for greater collaborative and strategic investment opportunities across the county.
- Revised estimates for 2012/13 are projecting overall a break-even position.
- An updated Capital Programme for 2012/13 and for the medium term 2013-16 is proposed.
- Given the scale of the challenges faced by the Council, the financial forecasts represent a considerable achievement and demonstrates the focus from Officers throughout the Council in delivering the required savings.
- The Council continues to focus on delivering quality services and to minimise the impact on front-line services.

3. RECOMMENDATIONS

It is recommended that :-

- (i) the draft budget proposals for 2013/14 outlined in this report be approved for Consultation;
- (ii) Cabinet consider the strategy for the Council Tax increase for 2013/14;
- (iii) the revised estimates for 2012/13 be approved;
- (iv) the revised capital programme be approved.

Wards Affected	All
Forward Plan Reference No. (if applicable)	
Portfolio Holder(s)	Cllr Alan Melton, Leader and Portfolio Holder, Policy and Resources Cllr John Clark, Portfolio Holder, Quality Organisation
Report Originator	Rob Bridge, Corporate Director and Chief Finance Officer Mark Saunders, Chief Accountant
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1. INTRODUCTION

- 1.1 This report sets out the financial implications of the council's priorities described in the draft Corporate Plan 2013 – 2016. Revenue estimates are draft at this stage and along with the draft Corporate Plan will be subject to public and stakeholder consultation prior to final budget and council tax levels for 2013/14 being set in February 2013.
- 1.2 Much of the financial information provided is necessarily based on a number of assumptions which are wholly or partly influenced by external factors. Some of these factors, such as the final level of external grant support and the level of Government set fees, will not be known until later in the process and any amendments will be reported to Cabinet and Council at the February 2013 budget meeting.
- 1.3 In addition, the Comprehensive Spending Review 2010 (CSR10), the Local Government Finance Settlement for 2013/14, the outcome of the Local Government Resource Review, the Autumn Statement 2012 and the continuing challenging economic climate means the Council needs to produce a robust strategy for the future to meet these challenges.

2. REVISED ESTIMATES 2012/13

- 2.1 As part of the budget setting process for 2012/13, approved by Council on 1 March 2012, £1.082m of savings were required in order to achieve a balanced budget.
- 2.2 As reported during the course of this year through the monthly monitoring reports to all Members, these savings have been identified and implemented. Significant organisational efficiency changes have been implemented in Leisure Services, Customer Access, Refuse Collection, Cleansing, Post and Printing, Housing and Community Support, ICT and Markets. These together with other efficiency changes, for example the rationalisation of Public Conveniences have enabled the savings target to be met for this year. Given the size of savings required, this is a considerable achievement and demonstrates the focus from Cabinet and Officers in delivering a balanced budget. The savings identified to date have not significantly affected front-line services as the Council is determined to maintain the quality of these services during these difficult and challenging times.
- 2.3 The latest revised estimates for 2012/13 are set out at Appendix A for approval. The current estimate for net expenditure is £14.415m, the same as originally estimated. At the present time, Corporate Management Team, Senior Managers and the Accountancy Team are managing and monitoring the position carefully and will continue to review spending levels to ensure this position is maintained at the year end.
- 2.4 Income levels overall are projected to achieve what was estimated, although there are variations between services, as detailed in the monthly monitoring reports. Expenditure also continues to be tightly controlled with Employee costs projected to be lower than estimated.
- 2.5 Consequently the General Fund Balance is forecast to remain at £2.762m at the year end.

3. LOCAL GOVERNMENT FINANCE SETTLEMENT

- 3.1 Members will be aware from previous reports to Cabinet, that the way Local Government is funded is fundamentally changing from April 2013. 2013/14 is the first local government finance settlement under the new arrangements for business rates retention.
- 3.2 Business rate income will now be split into a central and a local share: each being 50% of the Expected Business Rates Aggregate (EBRA) in 2013/14 (as predicted by the Office for Budget Responsibility) after deductions for expected appeals and reliefs.
- 3.3 The National EBRA for 2013/14 is £21.797 billion which means the total size of the local share is £10.899 billion. This together with Revenue Support Grant gives the total Start Up Funding Assessment as detailed below:

Table 1: Start Up Funding Assessment – National Totals

	2012-13 Unadjusted	2012/13 Adjusted	2013/14	% change	2014/15	% change
	£bn	£bn	£bn		£bn	
Start Up Funding Allocation	23.596	27.169	26.101	-3.9%		
Funded through:						
Local Share of EBRA			10.899		11.233	3.1%
Revenue Support Grant			15.203		12.624	-17.0%
			26.101		23.856	-8.6%
How the local share is calculated:						
Business Rates – Local list income			26.297			
Less: deductions for appeals, losses, reliefs etc			-4.500			
Total EBRA			21.797			
Central Share (50%)			10.899			
Local Share (50%)			10.899			

- 3.4 In order for a like for like comparison to be made, the 2012/13 original totals are adjusted to include elements of funding which are new for 2013/14, for example the Council Tax Support Grant. Consequently, on this basis the start up funding allocation has decreased by 3.9% compared with 2012/13. For 2014/15 the decrease is substantially larger at 8.6%. However this takes into account growth in business rates (and consequently the local share) in line with RPI, so that Revenue Support Grant reduces by 17%.
- 3.5 This settlement announcement confirms that local government continues to bear the brunt of public spending reductions in this Spending Review period. The Autumn Statement expects that these reductions will continue until 2018.

Business Rates

3.6 The Business Rates Retention system is being introduced in April 2013 and the key components of this are as follows:

Central and local shares

- The national expected business rates aggregate is divided between the central and local share, 50% each. The central share will be used to pay Revenue Support Grant and police funding.
- The total size of the local share is 50% of £21.8bn, ie. £10.9bn. This is the total pot for business rates retention and also determines the split in the Start Up Funding Assessment between baseline funding and Revenue Support Grant.
- A proportionate share of the baseline funding is calculated for each local authority on the basis of the average of business rates collected in 2010/11 and 2011/12. It is then split between tiers in a way that ensures counties and fire authorities are top-up rather than tariff authorities. 80% is allocated to districts, 18% to counties and 2% to fire authorities.

Top-ups and tariffs

- For each authority the result of this calculation is compared with its baseline funding. If the expected business rates are greater than the baseline funding it is a tariff authority; if it is the other way round it is a top-up authority. FDC will be a tariff authority.

Safety nets and levies

- Once the system is up and running, there will be a system of levies and safety nets to prevent what ministers see as excessive gain or excessive loss. The rates for these are as follows:
 - authorities will receive a safety net payment if their actual local share of business rates income is 7.5% or more below their funding baseline.
 - levy rates are set individually for authorities and will be determined by the ratio of their expected local share income to their baseline funding level. Levy rates will not exceed 50% and cannot be negative.

Pooling

- Members will be aware that this Council is a member of the proposed 'Growing Cambridgeshire' pool together with the County and other districts within the County (as agreed by Council on 13 September 2012). This pool has received designation by the DCLG. Pools will be treated as one authority for the purposes of top-ups and tariffs, levies and safety nets. Following the provisional finance settlement announcement, authorities in pools are now asked to consider their positions. Authorities have until 15 January 2013 to decide whether or not to withdraw from pools. If one authority decides to withdraw, then the pool will dissolve for 2013/14 and any new pooling proposal will not take effect until the following year.

- Based on the pooling authorities initial estimates for business rates income for 2013/14, there is a marginal financial benefit of the pooling arrangements. In addition, pooling allows for greater potential collaborative and strategic investment opportunities across the county.

3.7 The key Business Rates figures for this Council for 2013/14 are as follows:

Table 2 – Business Rates 2013/14

		£
Local Share (50%) of EBRA		10,898,554,444
Proportionate Share (2 yr average)	0.00107044	11,666,293
FDC Business Rates Baseline	80%	9,333,035
FDC Baseline Funding (as per Start-Up Funding Assessment)		3,233,867
Tariff		-6,099,167
Safety Net Threshold	92.5% of Baseline Funding	2,991,327
Levy Rate before 50% limit		65%
Levy Rate after 50% limit		50%

- 3.8 For future years, the figures in Table 2 are increased by RPI to reflect the annual increase in the business rate multiplier and no other changes will be made until 2020, when the system will be re-set.
- 3.9 Based on the figures above, the Council will need to collect £23.333m of business rates in 2013/14 (net of reliefs, appeals, costs of collection and losses on collection). If this figure is exceeded, then the Council will receive a proportion of this increase. Taking into account the proportions detailed in Table 2 above, the Council would receive 20% of any additional business rates income. Conversely, should actual business rates collected be lower than this figure, the Council would lose funding up to a maximum of £242,540 before the safety net is triggered. The funding implications of levies and safety nets are different for pooling arrangements and initial assessments indicate a slight financial benefit in being part of the 'Growing Cambridgeshire' designated pool.

Local Council Tax Support

- 3.10 At the Council meeting on 20 December 2012, the Council Tax Support scheme for 2013/14 was approved. The way Council Tax support is funded will fundamentally change in 2013/14 with the government reducing the national funding available by 10%. As the new support scheme will effectively be a council tax discount, the Council's taxbase will reduce thereby reducing the amount of Council Tax collected. To off-set this, the government is allocating funding to all authorities as part of the overall start-up funding assessment for 2013/14, as detailed in Table 3 below.
- 3.11 Consequently, within the overall resources available to the Council as detailed in Appendix B, the total amount of Council Tax has reduced which is off-set by additional government grant.
- 3.12 This change to how Council Tax support is operated and funded imposes significant additional risks on this Council. Any additional growth in support and/or reduction in collection rates over and above what has been assumed within our approved scheme and within fixed government funding, will have a direct cost on this Council and all other precepting authorities. The Council will aim to mitigate these risks as detailed in paras 4.12 – 4.13.

Council Taxbase Calculation

- 3.13 As a result of the changes to the Council Tax support scheme and other changes to Council Tax exemptions, the Council's Taxbase (Band D equivalents) will be significantly different with effect from April 2013 compared with previous years.
- 3.14 The overall impact will be that the taxbase will reduce as a result of the Council tax support scheme which will be partly off-set by an increase resulting from the changes to exemptions. The assumed taxbase figure for 2013/14 (including an allowance for housing growth) compared with 2012/13 is as follows:
- | | | |
|---------|--------|---|
| 2012/13 | 31,018 | (Council Tax Benefit fully funded by government) |
| 2013/14 | 26,559 | (incorporating new support scheme and changes to exemptions. Council Tax support grant now included in formula funding) |
- 3.15 Consequently, future increases in Council Tax will generate less resources than previous assumptions, with the additional Council Tax support grant (£1.2m in 2013/14) now being included within overall government formula funding. A 1% increase in Council Tax will now generate around £65,000 additional income.

Provisional Government Grant 2013/14 and 2014/15

3.16 The Council's provisional grant settlement is set out below in Table 3.

Table 3 - Provisional Grant Settlement

	Actual 2012/13 £000	Adjusted 2012/13 £000	Provisional 2013/14 £000	2013/14 % Reduction	Provisional 2014/15 £000	2014/15 % Reduction
Revenue Support Grant	136	136	3,986		3,569	
Business Rates Baseline Funding	6,824	6,824	2,652		3,227	
Total Formula Funding	6,960	6,960	6,638	-4.63%	6,796	
Council Tax Freeze Grant	186	186	186		186	
Council Tax Support Grant		1,202	1,200			
Homelessness Prevention Grant	71	71	71		71	
Total Start-Up Funding	7,217	8,419	8,095	-3.85%	7,053	-12.87%

To make a meaningful comparison, the figures for 2012/13 have been adjusted to include grants which will in future be included in the formula funding allocations. Consequently, allocations from 2013/14 onwards will now include the Council Tax freeze grant (2011/12-2014/15 only), the new Council Tax Support Grant and Homelessness Prevention Grant. On this basis, total formula funding will reduce by 16.23% over the next two years.

3.17 The provisional 2013/14 grant settlement has, as in previous years incorporated a 'floor damping' mechanism which limits an authority's grant reduction. Authorities above the floor have their grant "scaled back" to pay for the "floor" in the grant settlement. The 'floor damping' methodology divides District Councils into four bands according to the extent to which they rely on formula grant to finance their budget requirement in 2012/13. A different floor has been set for each band as follows:

Band 1 (Authorities most dependent on grant)	-5.4%
Band 2	-7.4%
Band 3	-9.4%
Band 4 (Authorities least dependent on grant)	-11.4%

This Council is in Band 2. 104 district councils have had their grant scaled back in 2013/14, including Fenland, to pay for authorities on the "floor" for grant. There are 97 district councils at the "floor". This Council's grant has been scaled back by £599,947 in 2013/14. In 2012/13 £192,515 was added to our grant.

3.18 The reductions and the amounts that the Government has “added back” to and reduced our grant by, are shown in Table 3.

Table 4 – Formula Funding over 2 year Period

Revenue Government Grant Support	£000	% Reduction	Floor Increase/ Reduction(-) £
2012/13	6,960	-12.2	192,515
2013/14	6,638	-4.6	-599,947

3.19 The settlement figures for 2013/14 and 2014/15 are disappointing to say the least. Although within the settlement figures the government has recognised the additional cost of providing services in rural areas, this has almost been completely negated by the impact of the damping (floors and ceilings) arrangements, which is clearly demonstrated in Table 4 above. Indeed, predominately rural authorities have been the worst affected with an average funding reduction in 2013/14 of 3.81% compared with a 2.04% reduction for urban areas. District Councils as a whole have suffered a 6.78% reduction compared with a 1.52% reduction for London Boroughs.

Revenue Spending Power

- 3.20 The figures detailed in the above tables are different from the headline announcements by the government. Since 2011/12, the government has introduced the concept of ‘Revenue Spending Power’ in an attempt to soften the reality of the significant reductions in government grant to local authorities. According to the government, in 2013/14 no Council will see their Revenue Spending Power reduce by more than 8.8%.
- 3.21 Revenue Spending Power is defined by the government as the aggregate of Formula Funding, New Homes Bonus, other Specific Government Grants and Council Tax Requirement. Table 5 below details the government’s assessment of Revenue Spending Power for this Council:

Table 5 – Revenue Spending Power

	Adjusted 2012/13 £000	Provisional 2013/14 £000	2013/14 % Reduction	Provisional 2014/15 £000	2014/15 % Reduction
Total Funding (from Table 3)	8,419	8,095	-3.85%	7,053	-12.87%
Council Tax Freeze Grant (2013/14-2014/15 only)		75		75	
Other Grants	14	18		18	
New Homes Bonus	613	860		1,107	
Total Government Funding	9,233	9,047	-2.01%	8,252	-8.79%
Council Tax Requirement (2012/13)	7,493	7,493		7,493	
Total Revenue 'Spending Power'	16,726	16,540	-1.11%	15,745	-4.81%

- 3.22 On this basis, the reduction in 'spending power' is significantly less than the reductions in government formula funding grant detailed in Table 3 above. The calculation also assumes no increase in Council Tax and therefore includes the Council Tax freeze grant offered by the government equivalent to a 1% increase in 2013/14, payable for two years.
- 3.23 Compared with other authorities within Cambridgeshire our 'Spending Power' shows a reduction whereas others are showing increases. This is predominately down to the impact of the New Homes Bonus on the calculation. For example, the increase in New Homes Bonus in 2013/14 for this Council has a 1.5% beneficial impact on the overall 'Spending Power' figure. The impact for the other Cambridgeshire districts range from 3% - 6%.

4. DRAFT BUDGET 2013/14 AND MEDIUM TERM STRATEGY

- 4.1 The Council's Medium Term Financial Strategy (MTFS) ensures that the commitments made in the Corporate Plan are funded not only in the year for which the formal approval of the budget is required (2013/14) but for forecast years as well, within a reasonable level of tolerance.
- 4.2 A decision regarding the final Council Tax level for 2013/14 does not need to be taken until February 2013 when further information regarding the uptake by authorities of the Council Tax freeze grant for 2013/14 can be assessed in conjunction with the proposed Council Tax referendum increase limit of 2% (see para 4.15 below). The freeze grant for 2013/14 is worth the equivalent of a 1% increase in Council Tax (around £75,000) and is payable for two years. In addition, forecast income and expenditure levels will also be updated.

- 4.3 For the purposes of this report, the following tables exemplify the impact of accepting the Council Tax freeze grant in 2013/14, with an indicative 2% increase per annum from 2014/15 (Table 6); and the impact of increasing Council Tax by 2% per annum from 2013/14 (Table 7).

Table 6 – Medium Term Forecast – 0% CT increase in 2013/14 & 2% in 2014/15 onwards

Item	Draft 2013/14 £000	Forecast 2014/15 £000	Subject to Spending Review	
			Forecast 2015/16 £000	Forecast 2016/17 £000
<u>Resources (Income)</u>				
Government Grant	8,095	7,053	6,509	6,207
Council Tax (provisional)	6,399	6,621	6,832	7,051
Council Tax freeze Grant (2013/14 – 2014/15)	75	75	0	0
Total Resources	14,569	13,749	13,341	13,258
Forecast Net Expenditure	14,865	15,072	15,301	15,318
Funding Gap – In Year	296	1,027	637	100
Cumulative Funding Gap		1,323	1,960	2,060
Forecast General Fund Balance	2,762	2,762	2,762	2,762

Table 7 – Medium Term Forecast – 2% CT increase in 2013/14 onwards

Item	Draft 2013/14 £000	Forecast 2014/15 £000	Subject to Spending Review	
			Forecast 2015/16 £000	Forecast 2016/17 £000
<u>Resources (Income)</u>				
Government Grant	8,095	7,053	6,509	6,207
Council Tax (provisional)	6,527	6,753	6,969	7,192
Council Tax freeze Grant (2013/14 – 2014/15)	0	0	0	0
Total Resources	14,622	13,806	13,478	13,399
Forecast Net Expenditure	14,865	15,072	15,301	15,318
Funding Gap – In Year	243	1,023	557	96
Cumulative Funding Gap		1,266	1,823	1,919
Additional Resources in Year	53	57	137	141
Cumulative Additional Resources		110	247	388
Forecast General Fund Balance	2,762	2,762	2,762	2,762

- 4.4 Government grant figures for 2015/16 and 2016/17 will be subject to the outcome of the next spending review. For the purposes of the Medium Term Forecasts, the figures are assumed to continue to reduce year on year in line with the Autumn Statement announcement. Within the government grant figures for these years, the Business Rates Baseline Funding element is assumed to increase annually by RPI (2.5%) whereas the Revenue Support Grant element is assumed to reduce by 12.5% year on year. This combines to produce an assumed overall reduction of 8% in 2015/16 and a further 5% in 2016/17.
- 4.5 The level of net expenditure for 2013/14 is currently estimated to be £14.865 million before any additional savings are included. This includes the assumptions detailed at para. 4.12 below.
- 4.6 The forecasts in both tables above show a cumulative gap of around £1.3m over the next two years. The main difference between the two tables is that in Table 7, the additional Council Tax resources reduce the in-year and cumulative funding gaps. Over the next four years, £388,000 of additional resources (net of the freeze grant) would be generated. Whichever option is chosen, significant savings will need to be identified to achieve a balanced budget over the medium term, including a robust strategy on the use of balances. Over the next four years it is forecast that around £2m of savings are required for a balanced budget without any further use of balances. It is proposed that the savings required in each year be identified prior to the start of the relevant financial year.
- 4.7 The current strategy is not to use the general fund balance to fund the projected deficits in future years. This will ensure the balance is kept above the target minimum level of £2m. However, due to the uncertainties relating to future resource and expenditure forecasts, this strategy will be reviewed as we progress through the budget setting process.
- 4.8 Taking into account the proposals in the above tables, the estimated level of expenditure in 2013/14 is detailed in Appendix A. The level of forecast resources available to the Council and the estimated levels of expenditure over the medium term are set out in detail in Appendix B.
- 4.9 The forecasts for the years 2015/16 – 2016/17 are particularly volatile and should be treated with extreme caution. No provisional announcements regarding government grant for these years have been made and therefore, the figures could be better or worse than forecast. The outcome of the next spending review will determine government funding for these years.
- 4.10 At this stage, CMT are progressing with several savings initiatives and Cabinet have begun their priority setting process, both of which will generate savings in the next financial year to deliver a balanced budget.
- 4.11 The draft Corporate Plan for 2013 – 16 continues the Council's successful improvement programme for all services. The funding for the majority of the priorities is included by rolling forward costs in this year's budget without the requirement for any specific "growth" to be identified.

Assumptions built into Budget and Medium Term Forecasts

4.12 Within the forecasts are a number of assumptions which are necessary to produce the overall budget strategy. However, there is an element of risk associated with this process although we aim to mitigate these risks as detailed in paras 4.13 – 4.14. The main assumptions are as follows:

- Council Tax increase for 2013/14 to be determined with a provisional 2% increase thereafter;
- 0.8% increase in Council Tax base in 2013/14 and 1% thereafter;
- 1% pay award per annum for 2013/14 and thereafter;
- 0% general inflation for the period of the Medium Term Forecasts;
- Specific allowance for inflation for business rates, external contracts, energy and water, drainage board levies;
- Allowance for pay increments;
- No increase in Employer's Pension Contributions until the next triennial valuation of the Cambridgeshire Pension Fund in 2013. 2% increase in contributions per annum assumed for 2014/15 - 2016/17;
- Investment interest rates to fall slightly from current rates until third quarter of 2014 when rates are forecast to begin rising slowly;
- Continuing impact of 2012/13 in year income pressures;
- Assumptions regarding forecast income levels from fees and charges have been included. These are a combination of fee increases (where applicable) and review of activity levels. This is pending the review of fees and charges by Overview & Scrutiny Panel in January 2013;
- The New Homes Bonus of £246,000 for 2013/14 has been included, making a total of £860,000 (three years cumulative total from 2011/12) to be received in 2013/14. Future years NHB have been assumed to increase by a further £250,000 in 2014/15 rising to £350,000 in 2016/17 when the amounts will level off.

Risk Assessment

4.13 There is an element of risk inherent in any process that looks into the future to make forecasts, particularly in the current economic climate. The Council has a strong track record in good financial management as recognised in the recent Annual Audit Letter. This risk is further minimised by adopting the following methodology when preparing the draft estimates:-

- Service managers and the Accountancy Team working together to define likely service income/expenditure patterns matched with service delivery plans
- Maintaining "earmarked" reserves for potentially unbudgeted expenditure,
- Adopting clear guidelines and control systems (revenue monitoring procedures, Financial Regulations etc.) to alert service managers, and members should variances become significant,
- Using professional and expert advice and economic forecasts where these are available, e.g. treasury management, interest rates
- Maintaining a rolling review of forecast estimates beyond the current year

- 4.14 2013/14 will see further risks imposed upon the Council with the new Business Rates Retention system and the Local Council Tax Support scheme. Both of these have significant risks associated with them particularly around growth forecasts and collection rates. The Council will seek to minimise these risks by adopting the methodology detailed in 4.13 above together with robust in-year monitoring systems.

Council Tax Referendum

- 4.15 As part of the 2013/14 Local Government Finance Settlement announcement on 19 December 2012, the government are proposing that local authorities will be required to seek the approval of their local electorate in a referendum if they set council tax increases that exceed 2% compared to 2012/13. The exception for this is that for shire districts, police and fire authorities in the lower quartile of council taxes for their category of authority, it will be the higher of £5 or 2%. Parish and town councils will not be included for 2013/14. This Council's referendum limit will be a 2% council tax increase.

5. CAPITAL EXPENDITURE AND INCOME

- 5.1 Capital Expenditure and Income plans have been prepared through the Council's service and financial planning cycle. The Council's capital resources are dependent on government funding, external grants or through the ongoing disposal of assets.
- 5.2 A fully updated Capital Programme for 2013-16 is presented at Appendix C for approval. All known and expected levels of capital receipts have been taken into account in the resources statement. These include the net usable receipt from the stock transfer and income from land sales. This includes significant amounts from the future disposal of land at Nene Waterfront. The level of these items can be subject to some potential variability.
- 5.3 Although the forecasts show sufficient resources to fund the programme to the end of 2013/14, subsequent years show a funding deficit. At the end of 2015/16, it is forecast that there will be a shortfall in funding of £1.459m. This is also dependent on the realisation of £4.21m of receipts from asset disposals which has associated risks. These receipts may not be realised until 2016/17 and beyond and future updates may require them to be re-profiled.
- 5.4 Consequently, no new schemes will be contractually committed unless funding is available. Should resources from external funding and/or capital receipts not generate the level of receipts forecast, or there is a delay in disposal of assets, then the capital programme will need re-visiting to ensure funding is sufficient to meet proposed expenditure. Monitoring and reviews of the programme and resources available are carried out regularly during the year and Cabinet will be informed of developments.
- 5.5 The programme detailed at Appendix C includes some changes from that reported to Cabinet in July 2012, mainly as result of re-profiling of some schemes.
- 5.6 A number of new schemes are currently being assessed and if necessary will be included in the final budget report for approval.

5.7 Members are also reminded of the impact on the revenue account of using uncommitted capital resources. Whilst they remain uncommitted, the resources are invested and generate revenue income to the general fund. Consequently, for every £1m spent the revenue account loses around £15,000 per annum at current interest rates. This figure increases by an additional £10,000 per annum for every 1% increase in interest rates. Based on the average interest rate projected over the Medium Term Financial Strategy (2 -2.5%), this equates to a reduction in investment interest of between £20,000 - £25,000 per annum for every £1m of capital resources spent.

6. REVIEW OF SPECIFIC AND GENERAL RESERVES

6.1 An important part of any budget strategy is the review and consideration of reserves. The Council's current forecast uncommitted General Fund Reserve as at 31 March 2013 is £2.762m. The strategy applies a robust but prudent use of these balances to cushion the impact of the economic climate, but maintaining the minimum level of reserves for the Council over the medium term. This strategy may need to be revised if the effects of the economic downturn are greater than anticipated.

6.2 The Council also has a number of earmarked reserves set aside for specific purposes. The level of each of these reserves, their purpose and prospective use will be reviewed as part of the budget report in February 2013.

7. PILOTS' NATIONAL PENSION FUND (PNPF)

7.1 Members will be aware that this Council is the Statutory Harbour Authority for the River Nene from Wisbech to the Bar Flat Buoy in The Wash. Consequently, the Council is responsible for the safe navigation of ships visiting both Wisbech Port and Port Sutton Bridge. To assist the Council to discharge this responsibility, three self-employed Pilots are licensed by this Council. Historically, the Pilots licensed by the Council have been members of the Pilots National Pension Fund, although only one is currently an active member. In addition, there are currently four 'pensioner' members.

7.2 The costs of these Pilots (including contributions to the Pension Fund where applicable) are recovered through the charges the Council levies on ships which use the Pilotage service. In this way, there is no additional cost to the council taxpayer.

7.3 In common with many pension funds, the PNPF has a significant funding shortfall which it needs to recover. Following a lengthy court case, all participating bodies, whether or not they employ pilots directly or license self-employed pilots were deemed to be liable for making contributions to achieve recovery of the pension fund shortfall. The situation regarding the PNPF is included as a contingent liability note within the Council's annual Statement of Accounts.

7.4 Consequently, this Council has recently been notified by the PNPF that our share of the deficit is £1.048m (out of a total shortfall of £186.645m). The PNPF are seeking to recover this amount over a 10 year period which would result in an annual payment of £134,000. The Council has requested a longer repayment period of up to 20 years to mitigate the impact on future fee levels, so for example, a 15 year repayment period

would require an annual payment of £100,000. We are currently awaiting a response from the PNPF. Payments are due to commence in January 2013, so the impact of these payments in 2012/13 will need to be incorporated into the proposals for 2013/14.

- 7.5 As the Statutory Harbour Authority, the Council is allowed to set fees and charges to recover its' costs. This has been re-iterated by the Department for Transport in a letter to the Council dated 10 January 2012, where they emphasise that there should not be any 'substantial or continuing subsidy from a local authority's general funds to its port'.
- 7.6 The Council will therefore seek to recover the additional annual repayment to the PNPF from the charges levied on ships using the Harbour Authority/Pilotage service, thereby having no impact on the council taxpayer. This will be incorporated into the proposed fees and charges for 2013/14 which will be considered by the Overview and Scrutiny Panel.

8. FEES AND CHARGES

- 8.1 The Overview and Scrutiny Panel will consider all fees and charges at their meeting on 28 January 2013 and recommend levels to Cabinet at their meeting on 31 January 2013.

FENLAND DISTRICT COUNCIL

Summary of Revenue Estimates

Service Summary	Approved Estimate 2012/13 £	Revised Estimate 2012/13 £	Draft Estimate 2013/14 £
Growth & Infrastructure	1,579,519	1,576,890	1,670,990
Environment & Leisure	4,370,550	4,315,790	4,284,480
Resources & Customer Services	6,000,840	6,019,515	6,090,340
Housing, Community & Economic Development	1,620,221	1,685,550	1,843,550
Policy & Governance	2,007,440	1,892,575	1,896,980
Capital Charges	2,466,270	2,466,270	2,466,270
NET COST OF GENERAL FUND SERVICES	18,044,840	17,956,590	18,252,610
Corporate Items			
Contributions to/ (from) Earmarked Reserves	-255,750	-107,500	-215,890
RTB/VAT Sharing Income	-349,800	-349,800	-290,000
Capital Charges Reversal	-1,768,070	-1,768,070	-1,778,730
Investment Income	-270,000	-330,000	-210,000
Council Tax Support - Transitional Grant (2013/14 only)	0	0	-32,280
New Homes Bonus	-613,460	-613,460	-860,390
Council Tax Freeze Grant (2011/12-2014/15) (Note 1)	-185,830	-185,830	0
Council Tax Freeze Grant (2012/13 only)	-187,320	-187,320	0
Corporate Adjustments	-3,630,230	-3,541,980	-3,387,290
Net Expenditure	14,414,610	14,414,610	14,865,320
Approved Contribution to/(from) Balances	0	0	0
BUDGET REQUIREMENT	14,414,610	14,414,610	14,865,320
Forecast General Fund Balance - 31st March	2,762,000	2,762,000	2,762,000

Note:

1. Council Tax Freeze Grant (2011/12-2014/15) payable for 2013/14 is now included within overall government grant figures detailed in Appendix B.

GENERAL FUND MEDIUM TERM FINANCIAL FORECAST

0% Council Tax increase in 2013/14; 2% thereafter

RESOURCES STATEMENT	Approved Estimate 2012/13 £000	Projected Outturn 2012/13 £000	Forecast Estimate 2013/14 £000	Forecast Estimate 2014/15 £000	Subject to CSR	
					Forecast Estimate 2015/16 £000	Forecast Estimate 2016/17 £000
A Resources						
(i) Central Government						
Revenue Support grant	136	136	4,861	3,720	3,093	2,706
Retained Business Rates	6,824	6,824	3,234	3,333	3,416	3,501
	6,960	6,960	8,095	7,053	6,509	6,207
Council Tax Freeze Grant (2013/14 - 2014/15 only)	0	0	75	75	0	0
(ii) Council Tax						
Council Tax Payers	7,493	7,493	6,416	6,621	6,832	7,051
Collection Fund Deficit(-)	-38	-38	-17	0	0	0
Use of Balances						
(iii) General Fund	0	0	0	0	0	0
Total Use of Resources	14,415	14,415	14,569	13,749	13,341	13,258
B Spending Levels						
(i) Budget	15,401	15,401	15,725	16,182	16,711	17,078
New Homes Bonus	-613	-613	-860	-1,110	-1,410	-1,760
Council Tax Freeze Grant (2011/12 - 2014/15)	-186	-186				
Council Tax Freeze Grant (2012/13 only)	-187	-187	0	0	0	0
Budget after efficiency savings	14,415	14,415	14,865	15,072	15,301	15,318
Funding Gap - In Year			296	1,027	637	100
Total Cumulative Funding Gap			296	1,323	1,960	2,060
C Council Tax Increase			0.0%	2.0%	2.0%	2.0%
D Forecast Balances						
(i) General Fund	2,762	2,762	2,762	2,762	2,762	2,762

Assumptions

- 1 Council Tax base increase 2013/14 0.75%, 2014/15 onwards 1%
- 2 Government Grant - 2013/14 - 2014/15 Provisional Finance Settlement
Further anticipated CSR Reductions 2015/16 onwards

GENERAL FUND MEDIUM TERM FINANCIAL FORECAST

2% Council Tax increase in 2013/14 and thereafter

RESOURCES STATEMENT	Approved Estimate 2012/13 £000	Projected Outturn 2012/13 £000	Forecast Estimate 2013/14 £000	Forecast Estimate 2014/15 £000	Subject to CSR	
					Forecast Estimate 2015/16 £000	Forecast Estimate 2016/17 £000
A Resources						
(i) Central Government						
Revenue Support grant	136	136	4,861	3,720	3,093	2,706
Retained Business Rates	6,824	6,824	3,234	3,333	3,416	3,501
	6,960	6,960	8,095	7,053	6,509	6,207
Council Tax Freeze Grant (2013/14 - 2014/15 only)	0	0	0	0	0	0
(ii) Council Tax						
Council Tax Payers	7,493	7,493	6,544	6,753	6,969	7,192
Collection Fund Deficit(-)	-38	-38	-17	0	0	0
Use of Balances						
(iii) General Fund	0	0	0	0	0	0
Total Use of Resources	14,415	14,415	14,622	13,806	13,478	13,399
B Spending Levels						
(i) Budget	15,401	15,401	15,725	16,182	16,711	17,078
New Homes Bonus	-613	-613	-860	-1,110	-1,410	-1,760
Council Tax Freeze Grant (2011/12 - 2014/15)	-186	-186				
Council Tax Freeze Grant (2012/13 only)	-187	-187	0	0	0	0
Budget after efficiency savings	14,415	14,415	14,865	15,072	15,301	15,318
Funding Gap - In Year			243	1,023	557	96
Total Cumulative Funding Gap			243	1,266	1,823	1,919
C Council Tax Increase			2.0%	2.0%	2.0%	2.0%
D Forecast Balances						
(i) General Fund	2,762	2,762	2,762	2,762	2,762	2,762

Assumptions

- 1 Council Tax base increase 2013/14 0.75%, 2014/15 onwards 1%
- 2 Government Grant - 2013/14 - 2014/15 Provisional Finance Settlement
Further anticipated CSR Reductions 2015/16 onwards

CAPITAL PROGRAMME AND FUNDING 2012/2016

		2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
CURRENT FORECAST EXPENDITURE		4,176	3,071	2,755	3,330
RESOURCES AVAILABLE					
General Fund Resources					
Reserves used to fund Capital		50	0	0	0
Capital Grants		950	390	390	390
Section 106 Contributions		102	0	0	0
		1,102	390	390	390
General Resources					
Usable Capital Receipts		470	850	1,390	1,500
Total Resources		1,572	1,240	1,780	1,890
Balance B/fwd 1.4.2012	(5,391)	0	0	0	0
In Year Deficit	(0)	2,604	1,831	975	1,440
Uncommitted Resources/ Funding Deficit	(0)	(2,787)	(956)	19	1,459

CAPITAL PROGRAMME SUMMARY 2012 - 2016

	Forecast				Total Cost £000	FDC Funding £000	External Funding £000	External Funders
	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000				
Leisure Centres								
1 Community Sports and Leisure Facilities - contingency			395	450	845	845		
2 Chatteris Leisure Facilities - Gym and Exercise Studio	300			900	300	300		
3 Chatteris Leisure Facilities - contingency					900	900		
Regeneration Programmes								
4 Fenland Renaissance and Place Shaping	20	66	30		116	116		
Car Parks								
5 Car Parks	105	30	30		165	165		
Cemeteries								
6 Eastwood Cemetery, March - Extension	130				130	130		
7 Garden of Rest March - Interment of ashes		20			20	20		
8 Cemeteries Improvements	82	49	25		156	156		
Parks and Open Spaces								
9 Wisbech Park Phase 1		136			136	136		
10 Land Adjacent to Octavia Hill Museum, Wisbech	55				55	55		
11 St Peters and St Paul, Gardens Chatteris	25				25	25		
12 Parks and Open Spaces Improvements	62	25	25		112	112		
13 Manor Open Space, Whittlesey	15				15	15		
14 Furrowfields, Chatteris	60				60	60	60 Section 106	
15 Wenny Road, Chatteris	42				42	42	42 Section 106	
Street Furniture								
16 Street Light Improvements	85				85	85		
17 Safety Lighting	47				47	47		
18 Street Name Plates/District Facilities Signage	44				44	44		
Job Stimulation								
19 Land Assembly/Business & Workforce Stimulation		358	500	500	1,358	1,358		
20 South Fens Business Centre - Phases 2 & 3	32				32	32		
21 Boleness Road, Wisbech - Phase 6 Remedials	27				27	27		
Sub-Total	1,131	684	1,005	1,850				

CAPITAL PROGRAMME SUMMARY 2012 - 2016

	Forecast				Total Cost £000	FDC Funding £000	External Funding £000
	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000			
B/FWD	1,131	684	1,005	1,850			
Port							
22 Mooring & Fuelling Facilities, Sutton Bridge	15	220			235	235	
23 Yacht Harbour - Replace buoyancy floats to pontoon		42			42	42	
24 Fenland Tug Modifications	17				17	17	
25 Pilot Boat Wisbech Port - Improvements	33				33	33	
26 Replacement of Navigation Buoys	22				22	22	
27 Fenland Pilot Engines - replacement	25				25	25	
Town Management							
28 Horsefair Taxi Relocation	115				115	90	25 Cambs. CC £25k
Vehicles and Plant							
29 Vehicles	224	198	270	250	942	942	
Fenland Hall Office Refurbishments							
30 ICT Server Room - Cooling System	25				25	25	
ICT System Replacement Programme & Infrastructure Upgrades							
31 Replacement & Upgrade Programme	230	325	250	200	1,005	1,005	
32 Tourism Initiatives		75			75	75	
Improvement of Assets							
33 Improvement of Assets - contingency		37	100		137	137	
34 Sewage Treatment Works Refurbishment	250	240	100		590	590	
35 March Sanitation Point Replacement	27				27	27	
36 Mini-Factories Refurbishment	176	60			236	236	
Homelessness							
37 Hostel Improvements	15				15	15	
Public Conveniences							
38 Modernisation of 4 facilities	437	40			477	477	
Community Fund							
39 March Athletics Club		8			8	8	
Sub -Total	2,742	1,929	1,725	2,300			

CAPITAL PROGRAMME SUMMARY 2012 - 2016

	Forecast				Total Cost £000	FDC Funding £000	External Funding £000	External Funders
	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000				
B/FWD	2,742	1,929	1,725	2,300				
Rural Community Fund								
40 Eastrea Village Hall Trust - Community Centre	50				50	50		
41 Benwick Village Hall Trustees - Community Hall	55				55	55		
42 Christchurch Parish Council - Sports Pavilion	7	100			100	100		
43 Parson Drove Pre-School - Safer Routes Project	100				7	7		
44 Gorefield Sports and Amenity Centre	18				100	100		
45 Fenland Association of Community Transport		35			18	18		
46 Doddington Parish Council - Skate Park		152	100		35	35		
47 Contingency				100	352	352		
Community Safety								
48 Hostmoor Avenue, CCTV	13				13			
Private Sector Housing Support								
49 Private Sector Renewal Grants	60	40	40	40	180	180		
50 Disabled Facilities Grants	532	640	640	640	2,452	892	Govt Grant £1,560k	
51 External Solid Wall Insulation	399				399		Govt Grant £399k	
Social Housing - Support for New Affordable Housing								
52 Contingency		175	250	250	675	675		
Community Development								
53 Thomas Clarkson Community College	200				200	200		
GRAND TOTAL	4,176	3,071	2,755	3,330	13,332	11,233	2,099	

